SSAP 1
STATEMENT OF STANDARD ACCOUNTING PRACTICE 1
PRESENTATION OF FINANCIAL STATEMENTS

(Issued March 1984, revised May 1999 ,August 2001 and December 2001)

The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice , Interpretations and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).

Objective

The objective of this Statement is to prescribe the basis for presentation of general purpose financial statements, in order to ensure comparability both with the enterprise's own financial statements of previous periods and with the financial statements of other enterprises. To achieve this objective, the Statement sets out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of financial statements. The recognition, measurement and disclosure of specific transactions and events are dealt with in other Statements of Standard Accounting Practice.

Introduction

In general, companies incorporated under the Companies Ordinance in Hong Kong ("Hong Kong incorporated companies") are required to prepare financial statements in respect of each financial year. These financial statements must comply with the requirements of the Companies Ordinance as to their form and content. In general terms the legal requirements with regard to the form and content of the financial statements are dealt with, inter alia, in Sections 122 to 129A and Sections 161 to 161C of the Companies Ordinance and the Tenth Schedule to the Companies Ordinance. It is not the intention of this Statement to detail all the legal requirements in Hong Kong in relation to the presentation of financial statements. However, references to the additional legal requirements for a Hong Kong incorporated company are stated where relevant and certain legal requirements that are additional to the provisions of this Statement are also highlighted.

Scope

1. This Statement should be applied in the presentation of all general purpose financial statements prepared and presented in accordance with Statements of Standard Accounting Practice.

2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. An example of tailored reports are those accounts prepared by certain private companies taking advantage of the exemptions granted by Section 141D of the Companies Ordinance. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This Statement does not apply to condensed interim financial information. This Statement applies equally to the financial statements of an individual enterprise and to consolidated financial statements for a group of enterprises.

3. This Statement applies to all types of enterprises including banks and insurance enterprises.

4. This Statement uses terminology that is suitable for an enterprise with a profit objective. Public sector business enterprises may therefore apply the requirements of this Statement. Non-profit, government and other public sector enterprises seeking to apply this Statement may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves. Such enterprises may also present additional components of the financial statements.

The primary objective of financial statements

5. Financial statements are a structured financial representation of the financial position of and the transactions undertaken by an enterprise. The primary objective of financial statements is to provide information that is useful to users for the purpose of assessing the financial position at a particular point in time and the performance and cash flows of an enterprise during a specified period of time and the stewardship of management during that period. Stewardship in this context is the accountability of management for the resources entrusted to it. To meet this objective, financial statements provide information about an enterprise's:

   a. assets;

   b. liabilities;

   c. equity;

   d. income and expenses, including gains and losses; and

   e. cash flows.

Responsibility for financial statements

6. The board of directors and/or other governing body of an enterprise is responsible for the preparation and presentation of its financial statements.

Components of financial statements

7. ***A complete set of financial statements includes the following components:***

   a. balance sheet;

   b. income statement;

   c. statement of ~~recognised gains and losses~~ changes in equity;

   d. cash flow statement ~~or other statement showing movements in net assets during the period~~; and

   e. accounting policies and explanatory notes.

8. SSAP 15 exempts small reporting entities with ~~a turnover or gross income~~revenue of less than HK$20 million per annum from the requirement to include a cash flow statement as part of their financial statements. This exemption does not apply to listed companies; and securities broking companies ~~or banking and insurance companies which do not take advantage of their entitlement to the disclosure exemptions under Part III of the Tenth Schedule to the Companies Ordinance~~.

9. Hong Kong incorporated companies are required to attach a report of the directors to the balance sheet laid before the company at general meeting. The legal requirements with regard to the content of a directors' report are dealt with in Sections 129D, 129E and 141C of the Companies Ordinance.

Overall considerations

True and fair view and compliance with Statements of Standard Accounting Practice

10. The appropriate application of Statements of Standard Accounting Practice, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that give a true and fair view.

11. An enterprise whose financial statements comply with Statements of Standard Accounting Practice should disclose that fact. Financial statements should not be described as complying with Statements of Standard Accounting Practice nor as having been prepared in accordance with accounting principles generally accepted in Hong Kong unless they comply with all the requirements of each applicable Statement and Interpretation.

12. Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.

13. In the extremely rare circumstances when management concludes that compliance with a requirement in a Statement would be misleading, and therefore that departure from a requirement is necessary to give a true and fair view, an enterprise should disclose:

a. that the management has concluded that the financial statements give a true and fair view of the enterprise's financial position, financial performance and cash flows;

b. that it has complied with applicable Statements of Standard Accounting Practice except that it has departed from a Statement in order to give a true and fair view;

c. the Statement from which the enterprise has departed, the nature of the departure, including the treatment that the Statement would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted; and

d. the financial impact of the departure on the enterprise's net profit or loss, assets, liabilities, equity and cash flows for each period presented.

14. Financial statements have sometimes been described as being "based on" or "complying with the significant disclosure requirements of" or "in compliance with the accounting requirements of" Statements of Standard Accounting Practice. Often there is no further information, although it is clear that significant disclosure requirements, if not accounting requirements, are not met. Such statements are misleading because they detract from the reliability and understandability of the financial statements. In order to ensure that financial statements that state compliance with Statements of Standard Accounting Practice will meet the standard required by users, this Statement includes guidance on how that requirement is met, and further guidance for determining the extremely rare circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure.

15. In virtually all circumstances, a true and fair view is achieved by compliance with applicable Statements of Standard Accounting Practice. A true and fair view requires:

    a. selecting and applying accounting policies in accordance with paragraph 21;

    b. presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and

    c. providing additional disclosures when the requirements in Statements of Standard Accounting Practice are insufficient to enable users to understand the impact of particular transactions or events on the enterprise's financial position and financial performance.

16. In extremely rare circumstances, application of a specific requirement in a Statement of Standard Accounting Practice might result in misleading financial statements. This will be the case only when the treatment required by the Statement is clearly inappropriate and thus a true and fair view cannot be given either by applying the Statement or through additional disclosure alone. Departure is not appropriate simply because another treatment would also give a true and fair view.

17. When assessing whether a departure from a specific requirement in Statements of Standard Accounting Practice is necessary, consideration is given to:

    a. the objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and

    b. the way in which the enterprise's circumstances differ from those of other enterprises which follow the requirement.

18. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgement, it is important that users are aware that the enterprise has not complied with Statements of Standard Accounting Practice. It is also important that users are given sufficient information to enable them to make informed judgement on whether the departure is necessary and to calculate the adjustments that would be required to comply with the Statement. The Hong Kong Society of Accountants will monitor instances of non-compliance that are brought to its attention (by enterprises, their auditors and regulators, for example) and will consider the need for clarification through amendments to Statements or Interpretations to ensure that departures remain necessary only in extremely rare circumstances.

19. When, in accordance with specific provisions in that Statement, a Statement of Standard Accounting Practice is applied before its effective date, that fact should be disclosed.

Compliance with the disclosure requirements of the Companies Ordinance

20. The financial statements of a Hong Kong incorporated company should also comply with the requirements of Sections 122 to 129A and Sections 161 to 161C of the Companies Ordinance and the Tenth Schedule to the Companies Ordinance, so far as applicable thereto.

Accounting policies

21. Management should select and apply an enterprise's accounting policies so that the financial statements comply with all requirements of each applicable Statement of Standard Accounting Practice and Interpretation. Where there is no specific requirement, management should develop policies to ensure that the financial statements provide information that is:

a. relevant to the needs of users; and

b. reliable in that they:

i. represent faithfully the results and financial position of the enterprise;

ii. reflect the economic substance of events and transactions and not merely the legal form;

iii. are neutral, that is free from bias;

iv. are prudent; and

v. are complete in all material respects.

22. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

23. In the absence of a specific Statement of Standard Accounting Practice or an Interpretation, management uses its judgement in developing an accounting policy that provides the most useful information to users of the enterprise's financial statements. In making this judgement, management considers:

a. Accounting Guidelines and Accounting Bulletins;

b. the requirements and guidance in Statements of Standard Accounting Practice and Interpretations dealing with similar and related issues;

c. the definitions, recognition and measurement criteria for assets, liabilities, income and expenses set out in Statement 2.01 "Framework for the preparation and presentation of financial statements"; and

d. pronouncements of the International Accounting Standards Committee and other standard setting bodies and accepted industry practices to the extent, but only to the extent, that these are consistent with (a) to (c) of this paragraph.

Going concern

24. When preparing financial statements, management should make an assessment of an enterprise's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the enterprise's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the enterprise is not considered to be a going concern.

25. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an enterprise has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

26. An enterprise should prepare its financial statements, except for cash flow information, under the accrual basis of accounting.

27. Under the accrual basis of accounting, transactions and events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (matching). However, the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities.

Consistency of presentation

28. The presentation and classification of items in the financial statements should be retained from one period to the next unless:

- ***a. a significant change in the nature of the operations of the enterprise or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or***
- ***b. a change in presentation is required by a Statement of Standard Accounting Practice or an Interpretation.***

29. A significant acquisition or disposal, or a review of the financial statement presentation, might suggest that the financial statements should be presented differently. Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an enterprise change the presentation of its financial statements. When such changes in presentation are made, an enterprise reclassifies its comparative information in accordance with paragraph 39.

Materiality and aggregation

30. Each material item should be presented separately in the financial statements. Immaterial amounts may be aggregated with amounts of a similar nature or function and need not be presented separately.

31. Financial statements result from processing large quantities of transactions which are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data which form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

32. In this context, information is material if its non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the nature and the size of the item are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. For example, individual assets with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately.

33. Materiality provides that the specific disclosure requirements of Statements of Standard Accounting Practice need not be met if the resulting information is not material.

Offsetting

34. Assets and liabilities should not be offset except when offsetting is required or permitted by another Statement of Standard Accounting Practice or when and only when, all the following conditions are met:

a. the reporting enterprise and another party <u>or parties</u> owe each other determinable monetary amounts, denominated either in the same currency, or in different but freely convertible currencies. For this purpose a freely convertible currency is one for which quoted exchange rates are available in an active market that can rapidly absorb the amount to be offset without significantly affecting the exchange rate;

b. the reporting enterprise has the ability to insist on a net settlement. In determining this, any right to insist on a net settlement that is contingent should be taken into account only if the reporting enterprise is able to enforce net settlement in all situations of default by the other party or parties; and

c. the reporting enterprise's ability to insist on a net settlement is assured beyond doubt. It is essential that there is no possibility that the enterprise could be required to transfer economic benefits to another party whilst being unable to enforce its own access to economic benefits. For this to be the case it is necessary that the debit balance matures no later than the credit balance. It is also necessary that the reporting enterprise's ability to insist on a net settlement would survive the insolvency of any or all of the parties involved.

35. Items of income and expense should be offset when, and only when:

a. a Statement of Standard Accounting Practice requires or permits it; or

b. gains, losses and related expenses arising from the same or similar transactions and events are not material. Such amounts should be aggregated in accordance with paragraph 30.

36. It is important that both assets and liabilities, and income and expenses, when material, are reported separately. Offsetting in either the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or event, detracts from the ability of users to understand the transactions undertaken and to assess the future cash flows of the enterprise. The reporting of assets net of valuation allowances, for example obsolescence allowances on inventories and doubtful debt allowances on receivables, is not offsetting.

37. SSAP 18 "Revenue" defines the term revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the enterprise. An enterprise undertakes, in the course of its ordinary activities, other transactions which do not generate revenue but which are incidental to the main revenue generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or event, by netting any income with related expenses arising on the same transaction. For example:

    a. gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses;

    b. expenditure that is reimbursed under a contractual arrangement with a third party (a sub-letting agreement, for example) is netted against the related reimbursement; and

    c. extraordinary items, if any, may be presented net of related taxation and minority interests with the gross amounts shown in the notes.

38. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example foreign exchange gains and losses or gains and losses arising on financial instruments held for trading purposes. Such gains and losses are, however, reported separately if their size, nature or incidence is such that separate disclosure is required by SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".

Comparative information

39. Unless a Statement of Standard Accounting Practice permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

40. This Statement permits an enterprise not to disclose comparative information for the reconciliation of movements in fixed assets.

41. In some cases narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and the steps that have been taken during the period to resolve the uncertainty.

42. When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period. The reason for and a description of the nature of material reclassifications should be disclosed. When it is impracticable to reclassify comparative amounts, an enterprise should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.

43. Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made are disclosed. SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" deals with the adjustments required to comparative information following a change in accounting policy that is applied retrospectively.

Structure and content

Introduction

44. This Statement requires certain disclosures on the face of the financial statements, requires other line items to be disclosed either on the face of the financial statements or in the notes, and sets out recommended formats as an appendix to the Statement which an enterprise may follow as appropriate in its own circumstances. SSAP 15 provides a structure for the presentation of the cash flow statement.

45. This Statement uses the term disclosure in a broad sense, encompassing items presented on the face of each financial statement as well as in the notes to the financial statements. Disclosures required by other Statements of Standard Accounting Practice are made in accordance with the requirements of those Statements. Unless this or another Statement specifies to the contrary, such disclosures are made either on the face of the relevant financial statement or in the notes.

Identification of financial statements

46. Financial statements should be clearly identified and distinguished from other information in the same published document.

47. Statements of Standard Accounting Practice apply only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using Statements of Standard Accounting Practice from other information which may be useful to users but is not the subject of Statements.

48. Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed, and repeated when it is necessary for a proper understanding of the information presented:

a. the name of the reporting enterprise or other means of identification;

b. whether the financial statements cover the individual enterprise or a group of enterprises;

c. the balance sheet date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

d. the reporting currency; and

e. the level of precision used in the presentation of figures in the financial statements.

49. The requirements in paragraph 48 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgement is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used; the above items are then presented frequently enough to ensure a proper understanding of the information given.

50. Financial statements are often made more understandable by presenting information in thousands or millions of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

Reporting period

51. Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise's balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, an enterprise should disclose, in addition to the period covered by the financial statements:

a. the reason for a period other than one year being used; and

b. the fact that comparative amounts for the income statement, statement of ~~recognised gains and losses~~changes in equity, cash flows and related notes are not comparable.

52. In exceptional circumstances an enterprise may be required to, or decide to, change its balance sheet date, for example following the acquisition of the enterprise by another enterprise with a different balance sheet date. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in balance sheet date is disclosed.

53. Normally, financial statements are consistently prepared covering a one year period. However, some enterprises prefer to report, for example, for a 52 week period for practical reasons. This Statement does not preclude this practice, as the resulting financial statements are unlikely to be materially different to those that would be presented for one year.

Timeliness

54. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the balance sheet date. Ongoing factors such as the complexity of an enterprise's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and market regulation. For example, the legal requirements in Hong Kong with regard to the reporting period and timeliness of the financial statements are dealt with in Sections 111 and 122 of the Companies Ordinance.

Balance sheet

The current/non-current distinction

55. Each enterprise should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the balance sheet. Paragraphs 60 to 68 of this Statement apply when this distinction is made. When an enterprise chooses not to make this classification, assets and liabilities should be presented broadly in order of their liquidity.

56. Whichever method of presentation is adopted, an enterprise should disclose, for each asset and liability item that combines amounts expected to be recovered or settled both before and after twelve months from the balance sheet date, the amount expected to be recovered or settled after more than twelve months.

57. When an enterprise supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the enterprise's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

58. Information about the maturity dates of assets and liabilities is useful in assessing the liquidity and solvency of an enterprise. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful whether or not assets and liabilities are classified between current and non-current. For example, an enterprise discloses the amount of inventories which are expected to be recovered after more than one year from the balance sheet date.

59. Hong Kong incorporated companies are required, under paragraph 4(2) of the Tenth Schedule to the Companies Ordinance, to identify separately fixed assets, current assets and assets that are neither fixed nor current in their financial statements. This provision applies to all companies other than banking and insurance companies which are entitled to certain disclosure exemptions under the provisions of Part III of the Tenth Schedule to the Companies Ordinance.

Current assets

60. An asset should be classified as a current asset when it:

a. is expected to be realised in, or is held for sale or consumption in, the normal course of the enterprise's operating cycle; or

b. is held primarily for trading purposes or for the short-term and expected to be realised within twelve months of the balance sheet date; or

c. is cash or a cash equivalent asset which is not restricted in its use.

All other assets should be classified as non-current assets.

61. This Statement uses the term "non-current" to include tangible, intangible, operating and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

62. The operating cycle of an enterprise is the time between the acquisition of materials entering into a process and its realisation in cash or an instrument that is readily convertible into cash. Current assets include inventories and trade receivables that are sold, consumed and realised as part of the normal operating cycle even when they are not expected to be realised within twelve months of the balance sheet date. Marketable securities are classified as current assets if they are expected to be realised within twelve months of the balance sheet date; otherwise they are classified as non-current assets.

Current liabilities

63. A liability should be classified as a current liability when it:

a. is expected to be settled in the normal course of the enterprise's operating cycle; or

b. is due to be settled within twelve months of the balance sheet date.

All other liabilities should be classified as non-current liabilities.

64. Current liabilities can be categorised in a similar way to current assets. Some current liabilities, such as trade payables and accruals for employee and other operating costs, form part of the working capital used in the normal operating cycle of the business. Such operating items are classified as current liabilities even if they are due to be settled after more than twelve months from the balance sheet date.

65. Other current liabilities are not settled as part of the current operating cycle, but are due for settlement within twelve months of the balance sheet date. Examples are the current portion of interest-bearing liabilities, bank overdrafts, dividends payable, income taxes and other non-trade payables. Interest-bearing liabilities that provide the financing for working capital on a long-term basis, and are not due for settlement within twelve months, are non-current liabilities.

66. An enterprise should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the balance sheet date if:

a. the original term was for a period of more than twelve months; and

b. the enterprise intends to refinance the obligation on a long-term basis; and

c. that intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are authorised for issue~~approved~~.

The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the balance sheet.

67. Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or "rolled over" at the discretion of the enterprise and, therefore, are not expected to use current working capital of the enterprise. Such obligations are considered to form part of the enterprise's long-term financing and should be classified as non-current. However, in situations in which refinancing is not at the discretion of the enterprise (as would be the case if there were no agreement to refinance), the refinancing cannot be considered automatic and the obligation is classified as current unless the completion of a refinancing agreement before authorisation~~approval~~ of the financial statements for issue provides evidence that the substance of the liability at the balance sheet date was long-term.

68. Some borrowing agreements incorporate undertakings by the borrower (covenants) which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. If the undertakings have been breached, the liability is classified as non-current only when:

a. the lender has agreed, prior to the authorisation~~approval~~ of the financial statements for issue, not to demand payment as a consequence of the breach; and

b. it is not probable that further breaches will occur within twelve months of the balance sheet date.

Information to be presented on the face of the balance sheet

69. The face of the balance sheet should include, where material, line items which present the following amounts:

- ***a.*** ***property, plant and equipment;***
- ***b.*** ***intangible assets;***
- ***c.*** ***financial assets (excluding amounts shown under (d), (f) and (g));***
- ***d.*** ***investments accounted for using the equity method;***
- ***e.*** ***inventories;***
- ***f.*** ***trade and other receivables;***
- ***g.*** ***cash and cash equivalents;***
- ***h.*** ***trade and other payables;***
- ***i.*** ***tax liabilities and assets;***
- ***j.*** ***provisions;***
- ***k.*** ***non-current interest-bearing liabilities;***
- ***l.*** ***minority interest; and***
- ***m.*** ***issued capital and reserves.***

70. Additional line items, headings and sub-totals should be presented on the face of the balance sheet when a Statement of Standard Accounting Practice requires it, or when such presentation is necessary to give a true and fair view of the enterprise's financial position.

71. This Statement does not prescribe the order or format in which items are to be presented. Paragraph 69 simply provides a list of items that are so different in nature or function that they deserve separate presentation on the face of the balance sheet. Illustrative formats are set out in the Appendix to this Statement. Adjustments to the line items above include the following:

- a. line items are added when another Statement of Standard Accounting Practice requires separate presentation on the face of the balance sheet, or when the size, nature or function of an item is such that separate presentation would assist in giving a true and fair view of the enterprise's financial position; and
- b. the descriptions used and the ordering of items may be amended according to the nature of the enterprise and its transactions, to provide information that is necessary for an overall understanding of the enterprise's financial position. For example, a bank amends the above descriptions in order to apply the more specific requirements in Section III of the "Best Practice Guide on Financial Disclosure by Authorised Institutions" issued by the Hong Kong Monetary Authority.

72. The line items listed in paragraph 69 are broad in nature and need not be limited to items falling within the scope of other Statements. For example, the line item intangible assets includes goodwill and assets arising from development expenditure.

73. The judgement on whether additional items are separately presented is based on an assessment of:

a. the nature and liquidity of assets and their materiality, leading, in most cases, to the separate presentation of, goodwill and assets arising from development expenditure, monetary and non-monetary assets and current and non-current assets;

b. their function within the enterprise, leading, for example, to the separate presentation of operating and financial assets, inventories, receivables and cash and cash equivalent assets; and

c. the amounts, nature and timing of liabilities, leading, for example, to the separate presentation of interest-bearing and non-interest-bearing liabilities and provisions, classified as current or non-current if appropriate.

74. Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example certain classes of property, plant and equipment may be carried at cost, or at revalued amounts in accordance with SSAP 17 "Property, plant and equipment". The use of different measurement bases for different classes of assets suggests that their nature or function differs and therefore that they may need to be presented as separate line items.

Information to be presented either on the face of the balance sheet or in the notes

75. An enterprise should disclose, either on the face of the balance sheet or in the notes to the balance sheet, further sub-classifications of the line items presented, classified in a manner appropriate to the enterprise's operations. Each item should be sub-classified, when appropriate, by its nature and, amounts payable to and receivable from the parent enterprise, fellow subsidiaries, joint ventures and associates and other related parties should be disclosed separately.

76. The detail provided in sub-classifications, either on the face of the balance sheet or in the notes, depends on the requirements of Statements of Standard Accounting Practice and the size, nature and function of the amounts involved. The factors set out in paragraph 73 are also used to decide the basis of sub-classification. The disclosures will vary for each item, for example:

a. tangible assets are classified by class as described in SSAP 17 "Property, plant and equipment";

b. receivables are analysed between amounts receivable from trade customers, other members of the group, receivables from related parties, prepayments and other amounts;

c. inventories are sub-classified, in accordance with SSAP 22 "Inventories", into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

d. provisions are analysed showing separately provisions for employee benefit costs and any other items classified in a manner appropriate to the enterprise's operations; and

e. equity capital and reserves are analysed showing separately the various classes of issued capital, share premium and reserves.

77. ***An enterprise should disclose the following, either on the face of the balance sheet or in the notes:***

    a. ***for each class of share capital:***

        i. ***the number of shares authorised;***

        ii. ***the number of shares issued and fully paid, and issued but not fully paid;***

        iii. ***par value per share, or that the shares have no par value;***

        iv. ***a reconciliation of the number of shares outstanding at the beginning and at the end of the period;***

        v. ***the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;***

        vi. ***shares in the enterprise held by the enterprise itself or by subsidiaries, joint ventures or associates of the enterprise; and***

        vii. ***shares reserved for issuance under options and sales contracts, including the terms and amounts;***

    b. ***a description of the nature and purpose of each reserve within owner's equity;***

    c. ***~~when dividents have been proposed but not formally approved for payment, the amount included (or not included) in liabilities;~~ the amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue; and***

    d. ***the amount of any cumulative preference dividends not recognised.***

    An enterprise without share capital, such as a partnership, should disclose information equivalent to that required above, showing movements during the period in each category of equity interest and the rights, preferences and restrictions attaching to each category of equity interest.

78. A Hong Kong incorporated company should disclose information as required under paragraphs 2 to 12 of Part I of the Tenth Schedule to the Companies Ordinance in its balance sheet or related notes. These requirements are subject to exceptions and modifications provided for by Part II of the Tenth Schedule in the case of a holding or subsidiary company and by Part III of the Tenth Schedule in the case of banking and insurance companies.

Income statement

Information to be presented on the face of the income statement

79. ***The face of the income statement should include, where material, line items which present the following amounts:***

    a. ***turnover;***

    b. ***other revenue;***

    c. ***the results of operating activities;***

    d. ***finance costs;***

    e. ***share of profits and losses of associates accounted for using the equity method;***

f. ***share of profits and losses of joint ventures accounted for using the equity method;***

g. ***tax expense;***

h. ***profit or loss from ordinary activities;***

i. ***extraordinary items;***

j. ***minority interest; and***

k. ***net profit or loss for the period.***

Additional line items, headings, sub-totals and further analysis of line items should be presented on the face of the income statement when required by a Statement of Standard Accounting Practice, or when such presentation is necessary to give a true and fair view of the enterprise's financial performance.

80. Turnover should consist of revenue arising from the principal activities of the enterprise and therefore should not usually include those items of revenue and gains that arise incidentally.

81. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes and, similarly, in an agency relationship, amounts collected on behalf of the principal, are not revenue of an enterprise and are therefore excluded from its turnover.

82. The effects of an enterprise's various activities, transactions and events differ in stability, risk and predictability, and the disclosure of the elements of the performance assists in an understanding of the performance achieved and in assessing future results. Additional line items are included on the face of the income statement and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be taken into consideration include materiality and the nature and function of the various components of income and expenses. For example, a bank amends the descriptions in order to apply the more specific requirements in paragraphs 3.1 to 3.4 of the "Best Practice Guide on Financial Disclosure by Authorised Institutions" issued by the Hong Kong Monetary Authority. Income and expense items are offset only when the criteria in paragraph 35 are met.

Information to be presented either on the face of the income statement or in the notes

83. An enterprise should present, either on the face of the income statement or in the notes to the income statement, an analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise.

84. Enterprises are encouraged to present the analysis in paragraph 83 on the face of the income statement.

85. Expense items are further sub-classified in order to highlight a range of components of financial performance which may differ in terms of stability, potential for gain or loss and predictability. This information is provided in one of two ways.

86. The first analysis is referred to as the nature of expense method. Expenses are aggregated in the income statement according to their nature, (for example depreciation, purchases of materials, transport costs, wages and salaries, advertising costs), and are not reallocated amongst various functions within the enterprise. This method is simple to apply in many smaller enterprises because no allocations of operating expenses between functional classifications is necessary. An example of a classification using the nature of expense method is as follows:

Turnover		X
Other revenue		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Staff costs	X	
Depreciation and amortisation expense	X	
Other operating expenses	X	
Total operating expenses		(X)
Profit from operating activities		X

87. The change in finished goods and work in progress during the period represents an adjustment to production expenses to reflect the fact that either production has increased inventory levels or that sales in excess of production have reduced inventory levels.

88. The second analysis is referred to as the function of expense or Ocost of sales' method and classifies expenses according to their function as part of cost of sales, distribution or administrative activities. This presentation often provides more relevant information to users than the classification of expenses by nature, but the allocation of costs to functions can be arbitrary and involves considerable judgement. An example of a classification using the function of expense method is as follows:

Turnover	X
Cost of sales	(X)
Gross Profit	X
Other revenue	X
Distribution costs	(X)
Administrative expenses	(X)
Other operating expenses	(X)
Profit from operating activities	X

89. Enterprises classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.

90. The choice of analysis between the cost of sales method and the nature of expense method depends on both historical and industry factors and the nature of the organisation. Both methods provide an indication of those costs which might be expected to vary, directly or indirectly, with the level of sales or production of the enterprise. Because each method of presentation has merit for different types of enterprise, this Statement requires a choice between classifications based on that which most fairly presents the elements of the enterprise's performance. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the cost of sales classification is used.

91. A Hong Kong incorporated company is required under paragraph 16 of the Tenth Schedule to the Companies Ordinance to disclose the turnover for the financial year and the method by which it is arrived at. In order to enable the users to understand the correlation between the revenue and turnover of the company, a reconciliation made between these two figures in the notes would be useful.

92. An enterprise should disclose, either on the face of the income statement or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.

93. A Hong Kong incorporated company should disclose information as required under paragraphs 13 to 17 of Part I of the Tenth Schedule to the Companies Ordinance in its income statement or related notes. These requirements are subject to exceptions and modifications provided for by Part II of the Tenth Schedule in the case of a holding or subsidiary company and by Part III of the Tenth Schedule in the case of banking and insurance companies.

~~Statement of recognised gains and losses~~ Changes in equity

94. An enterprise should present, as a separate component of its financial statements, a statement showing:

a. the net profit or loss for the period;

b. each item of income and expense, gain or loss which, as required by other Statements of Standard Accounting Practice, is recognised directly in equity, and the total of these items; and

~~c.~~ ~~movements in goodwill otherwise than through item (a) above; and~~

~~d.~~c. the cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".

In addition, an enterprise should present, either within this statement or in the notes:

d. capital transactions with owners and distributions to owners;

e. the balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and

f. a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.

~~95. If the only component of a statement of recognised gains and losses is the net profit or loss for the period, a statement to this effect immediately below the income statement will satisfy the requirement of paragraph 94 of this Statement. No separate statement of recognised gains and losses is therefore required to be prepared in this case.~~

~~96.~~ ~~It is recognised that the immediate elimination of purchased goodwill against reserves is not a recognised loss. Nevertheless, the inclusion of the goodwill movements as required under paragraph 94(c) in a statement of recognised gains and losses is considered essential since it provides useful information to readers by disclosing assets eliminated against reserves. Preparers of financial statements may use other names (for example "statement of non-owner movements in equity") for this statement provided that the other name used is unambiguous and the statement itself complies fully with the requirements of this Statement as applicable to a statement of recognised gains and losses.~~

97. Changes in an enterprise's equity between two balance sheet dates reflect the increase or decrease in its net assets or wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements. Except for changes resulting from transactions with shareholders, such as capital contributions and dividends, the overall change in equity represents the total gains and losses generated by the enterprise's activities during the period.

98. SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" requires all items of income and expense recognised in a period to be included in the determination of net profit or loss for the period unless a Statement of Standard Accounting Practice or, in the absence of a relevant Statement of Standard Accounting Practice, the law requires or permits otherwise. Other Statements require gains and losses, such as revaluation surpluses and deficits and certain foreign exchange differences, to be recognised directly as changes in equity along with capital transactions with and distributions to the enterprise's owners. Since it is important to take into consideration all gains and losses in assessing the changes in an enterprise's financial position between two balance sheet dates, this Statement requires a separate component of the financial statements which highlights an enterprise's total gains and losses, including those that are recognised directly in equity.

99. The requirements in paragraph 94 ~~are met by presenting a separate component of the financial statements which presents items (a) to (d)~~may be met in a number of ways. One alternative is to follow a columnar format which reconciles between the opening and closing balances of each element within shareholders' equity, including items (a) to (f). Another alternative is to present a separate component of the financial statements which presents only items (a) to (c). Under this approach, the items described in (d) to (f) are shown in the notes to the financial statements. Alternative approaches are ~~An example of a statement of recognised gains and losses~~ illustrated in the appendix to this Statement. ~~In addition~~Whichever approach is adopted, paragraph 94 ~~also~~requires a sub-total of the items in (b) to enable users to derive the total gains and losses arising from the enterprise's activities during the period.

Cash flow statement

100. SSAP 15 sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows.

Notes to the financial statements

Structure

101. The notes to the financial statements of an enterprise should:

a. present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and events;

b. ***disclose the information required by Statements of Standard Accounting Practice that is not presented elsewhere in the financial statements; and***

c. ***provide additional information which is not presented on the face of the financial statements but that is necessary for giving a true and fair view.***

102. Notes to the financial statements should be presented in a systematic manner. Each item on the face of the balance sheet, income statement and cash flow statement should be cross-referenced to any related information in the notes.

103. Notes to the financial statements include narrative descriptions or more detailed analyses of amounts shown on the face of the balance sheet, income statement, cash flow statement ~~or other statement showing movements in net assets during the period~~ and statement of ~~recognised gains and losses~~changes in equity, as well as additional information such as contingent liabilities and commitments. They include information required and encouraged to be disclosed by Statements of Standard Accounting Practice, and other disclosures necessary to give a true and fair view.

104. Notes are normally presented in the following order which assists users in understanding the financial statements and comparing them with those of other enterprises:

a. statement of compliance with Statements of Standard Accounting Practice (see paragraph 11);

b. statement of the measurement basis (bases) and accounting policies applied;

c. supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and

d. other disclosures, including:

i. contingencies, commitments and other financial disclosures; and

ii. non-financial disclosures.

105. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on interest rates and fair value adjustments may be combined with information on maturities of financial instruments although the former are income statement disclosures and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable.

106. Information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Presentation of accounting policies

107. The accounting policies section of the notes to the financial statements should describe the following:

a. ***the measurement basis (or bases) used in preparing the financial statements; and***

b. ***each specific accounting policy that is necessary for a proper understanding of the financial statements.***

108. In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realisable value, fair value or present value) because they form the basis on which the whole of the financial statements are prepared. When more than one measurement basis is used in the financial statements, for example when certain non-current assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

109. In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported performance and financial position. The accounting policies that an enterprise might consider presenting include, but are not restricted to, the following:

a. revenue recognition;

b. consolidation principles, including subsidiaries and associates;

c. business combinations;

d. joint ventures;

e. recognition and depreciation/amortisation of tangible and intangible assets;

f. capitalisation of borrowing costs and other expenditure;

g. construction contracts;

h. investment properties;

i. financial instruments and investments;

j. leases;

k. research and development costs;

l. inventories;

m. taxes, including deferred taxes;

n. provisions;

o. employee benefit costs;

p. foreign currency translation and hedging;

q. definition of business and geographical segments and the basis for allocation of costs between segments;

r. definition of cash and cash equivalents;

s. inflation accounting; and

t. government grants.

Other Statements of Standard Accounting Practice specifically require disclosure of accounting policies in many of these areas.

110. Each enterprise considers the nature of its operations and the policies which the user would expect to be disclosed for that type of enterprise. For example, all private sector enterprises would be expected to disclose an accounting policy for income taxes, including deferred taxes and tax assets. When an enterprise has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses and the hedging of such gains and losses would be expected. In consolidated financial statements, the policy used for determining goodwill and minority interest is disclosed.

111. An accounting policy may be significant even if amounts shown for current and prior periods are not material. It is also appropriate to disclose an accounting policy for each policy not covered by existing Statements of Standard Accounting Practice, but selected and applied in accordance with paragraph 21.

~~Other changes in equity~~

~~*112.*~~ ~~***In addition to the information required to be disclosed in the statement of recognised gains and losses, an enterprise should present in the notes to the financial statements:***~~

~~***a.***~~ ~~***capital transactions with owners and distributions other than dividends to owners;***~~

~~***b.***~~ ~~***the balance of accumulated profit or loss at the beginning of the period and at the balance sheet date, and the movements for the period; and***~~

~~***c.***~~ ~~***a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement.***~~

Other disclosures

113. ***An enterprise should disclose the following in the financial statements:***

a. ***a description of the nature of the enterprise's operations and its principal activities; and***

b. ***the name of the ultimate parent enterprise of the group.***

114. Section 129A of the Companies Ordinance also requires disclosure of the name and country of incorporation of the body corporate regarded by the directors as being the ultimate holding company of a Hong Kong incorporated company.

115. Enterprises are encouraged to disclose the following if not disclosed elsewhere in information published with the financial statements:

a. the domicile and legal form of the enterprise;

b. the country of incorporation of the enterprise; and

c. the address of the enterprise's registered office (or principal place of business, if different from the registered office).

116. Hong Kong incorporated companies are also required to disclose the particulars of directors' emoluments and pensions and the particulars of loans to officers in their financial statements under Section 161 and Section 161B of the Companies Ordinance respectively.

Effective Date

117. ***Except for the revised paragraphs 7(c), 7(d), 51(b), 94, 99 and 103 ~~T~~the accounting practices set out in this Statement should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 January 1999. The revised paragraph 7(d) should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 July 2001. The revised paragraphs 7(c), 51(b), 94, 99 and 103 should be regarded as standard in respect of financial statements relating to accounting periods beginning on or after 1 January 2002.Earlier adoption is encouraged but not required.***

118. This Statement of Standard Accounting Practice replaces SSAP 1 "Disclosure of accounting policies".

Compliance with International Accounting Standards

119. Compliance with this Statement ensures compliance in all material respects with International Accounting Standard IAS 1 (revised 1997) "Presentation of financial statements".

Appendix

Illustrative Financial Statement Structure

The appendix is illustrative only and does not form part of the Statement of Standard Accounting Practice. The purpose of the appendix is to illustrate the application of the Statement of Standard Accounting Practice to assist in clarifying its meaning.

The Statement sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet and the income statement as well as for the presentation of the statement of ~~recognised gains and losses~~changes in equity. It also establishes further items that may be presented either on the face of the relevant financial statement or in the notes. The purpose of the Appendix is to provide examples of the ways in which the requirements for the presentation of the income statement, balance sheet and the statement of ~~recognised gains and losses~~changes in equity might be presented in the primary financial statements. The order of presentation and the descriptions used for line items should be changed where necessary in order to give a true and fair view in each enterprise's particular circumstances.

Two income statements are provided for illustrative purposes, illustrating the two alternative classifications of income and expenses, by nature and by function. Three balance sheets and ~~a~~ two statements of ~~recognised gains and losses~~changes in equity are also illustrated.

Examples of formats for cash flow statements are provided in the illustrative examples contained in the ~~Explanatory note~~Appendices to SSAP 15 (revised) "Cash flow statements".

XYZ GROUP - INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-2

(illustrating the classification of expenses by function)
(in thousands of currency units)

	20-2	20-1
Turnover	X	X
Cost of sales	(X)	(X)
	——	——
Gross Profit	X	X
Other revenue	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other operating expenses	(X)	(X)
	——	——
Profit from operations	X	X
Finance cost	(X)	(X)
Share of profits and losses of associates	X	X
	——	——
Profit before tax	X	X
Taxation	(X)	(X)
	——	——
Profit after tax	X	X
Minority interest	(X)	(X)
	——	——
Net profit for the period	X	X
	===	===

XYZ GROUP - INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20-2

(illustrating the classification of expenses by nature)
(in thousands of currency units)

	20-2	20-1
Turnover	X	X
Other revenue	X	X
Changes in inventories of finished goods and work in progress	(X)	X
Work performed by the enterprise and capitalised	X	X
Raw material and consumables used	(X)	(X)
Staff costs	(X)	(X)
Depreciation and amortisation expenses	(X)	(X)
Other operating expenses	(X)	(X)
Profit from operations	X	X
Finance cost	(X)	(X)
Share of profits and losses of associates	X	X
Profit before tax	X	X
Taxation	(X)	(X)
Profit after tax	X	X
Minority interest	(X)	(X)
Net profit for the period	X	X

XYZ GROUP - BALANCE SHEET AS AT 31 DECEMBER 20-2 -

Format 1
(in thousands of currency units)

	20-2	20-2	20-1	20-1
ASSETS				
Non-current assets				
Property, plant and equipment	X		X	
Goodwill	X		X	
Manufacturing licenses	X		X	
Investments in associates	X		X	
Other financial assets	X		X	
		X		X
Current assets				
Inventories	X		X	
Trade and other receivables	X		X	
Prepayments	X		X	
Cash and cash equivalents	X		X	
		X		X
Total assets		X		X
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital	X		X	
Reserves	X		X	
Accumulated profits/(losses)	X		X	
		X		X
Minority interest		X		X
Non-currnet liabilities				
Interest-bearing borrowings	X		X	
Deferred tax	X		X	

Retirement benefit obligation	X		X	
		X		X
Current liabilities				
Trade and other payables	X		X	
Short-term borrowings	X		X	
Current portion of interest-bearing borrowings	X		X	
Warranty provision	X		X	
		X		X
Total equity and liabilities		X		X

XYZ GROUP - BALANCE SHEET AS AT 31 DECEMBER 20-2 -

Format 2
(in thousands of currency units)

	20-2	20-2	20-1	20-1
ASSETS				
Non-current assets				
Property, plant and equipment	X		X	
Goodwill	X		X	
Manufacturing licenses	X		X	
Investments in associates	X		X	
Other financial assets	X		X	
		X		X
Current assets				
Inventories	X		X	
Trade and other receivables	X		X	
Prepayments	X		X	
Cash and cash equivalents	X		X	
		X		X
Current liabilities				
Trade and other payables	X		X	
Short-term borrowings	X		X	
Current portion of interest-bearing borrowing	X		X	
Warranty provision	X		X	
		X		X
Net current assets		X		X
Total assets less current liabilities		X		X
Non-current liabilities				
Interest-bearing borrowings	X		X	
Deferred tax	X		X	

Retirement benefit obligation	X		X	
		X		X
Minority interest		X		X
NET ASSETS		X		X
CAPITAL AND RESERVES				
Issued capital		X		X
Reserves		X		X
Accumulated profits/(losses)		X		X
		X		X

XYZ GROUP - BALANCE SHEET AS AT 31 DECEMBER 20-2 -

Format 3
(in thousands of currency units)

	20-2	20-2	20-1	20-1
ASSETS				
Property, plant and equipment		X		X
Goodwill		X		X
Manufacturing licenses		X		X
Investments in associates		X		X
Other financial assets		X		X
Inventories		X		X
Trade and other receivables		X		X
Prepayments		X		X
Cash and cash equivalents		X		X
Total assest		X		X
EQUITY AND LIABILITIES				
Capital and reserves				
Issued capital	X		X	
Reserves	X		X	
Accumulated profits/(losses)	X		X	
		X		X
Minority interest		X		X
Liabilities				
Interest-bearing borrowings	X		X	
Deferred tax	X		X	
Retirement benefit obligation	X		X	
Trade and other payables	X		X	
Short-term borrowings	X		X	
Current portion of interest-bearing borrowings	X		X	
Warranty provision	X		X	

	X	X
	____	____
Total equity and liabilities	X	X
	===	===

Under the Tenth Schedule to the Companies Ordinance, Hong Kong incorporated companies are required to distinguish between assets which are fixed, those which are current and those which are neither fixed nor current. Therefore if format 3 is adopted, additional disclosure may be necessary in the notes in this respect.

~~XYZ GROUP - STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 20-2~~

~~(in thousands of currency units)~~

	~~20-2~~	~~20-1~~
~~Surplus/(deficit) on revaluation of properties~~	~~(X)~~	~~X~~
~~Surplus/(deficit) on revaluation of investments~~	~~X~~	~~(X)~~
~~Exchange differences on translation of the financial statements of foreign entities~~	~~(X)~~	~~(X)~~
~~Net gains not recognised in the income statement~~	~~X~~	~~X~~
~~Net profit for the period~~	~~X~~	~~X~~
~~Total recognised gains and losses~~	~~X~~	~~X~~
~~Goodwill eliminated directly against reserves~~	~~X~~	~~X~~
	~~X~~	~~X~~

~~The above example illustrates an approach which presents those changes in equity that represent gains and losses in a separate component of the financial statements. Under this approach, a reconciliation of opening and closing balances of share capital, reserves and accumulated profit is given in the notes to the financial statements.~~

XYZ GROUP - STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20-2

(in thousands of currency units)

	Share capital	Share premium	Revaluation reserve	Translation reserve	Accumulated profit	Total
Balance at 31 December 20-0	X	X	X	(X)	X	X
Changes in accounting policy					(X)	(X)
Restated balance	X	X	X	(X)	X	X
Surplus on revaluation of properties			X			X
Deficit on revaluation of investments			(X)			(X)
Currency translation differences				(X)		(X)
Net gains and losses not recognised in the income statement			X	(X)		X
Net profit for the period					X	X
Dividends					(X)	(X)
Issue of share capital	X	X				X
Balance at 31 December 20-1	X	X	X	(X)	X	X
Deficit on revaluation of properties			(X)			(X)
Surplus on revaluation of investment			X			X

Currency translation differences				(X)		(X)
Net gains and losses not recognised in the income statement			(X)	(X)		(X)
Net profit for the period					X	X
Dividends					(X)	(X)
Issue of share capital	X	X				X
Balance at 31 December 20-2	X ===	X ===	X ===	(X) ===	X ===	X ===

The above example illustrates all the requirements of paragraph 94(a) D (f) presented on the face of the Statement of Changes of Equity. An alternative presentation is shown on the next page.

XYZ GROUP - STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20-2

(in thousands of currency units)

	notes	20-2	20-1
Opening balance - Total equity	[...]	X	X
Changes in accounting policy	[...]		(X)
Restated balances		X	X
Surplus on revaluation of properties	[...]	X	X
Currency translation differences	[...]	(X)	(X)
Net gains and losses not recognised in the income statement		(X)	(X)
Net profit for the period	[...]	X	X
Dividends	[...]	(X)	(X)
Issue of share capital	[...]	X	X
Closing balance - Total equity	[...]	(X) ===	X ===

The above example is an alternative to that shown on the previous page and illustrates the requirements of SSAP 1.94 (a) - (d). With the above presentation, the requirements of SSAP 1.94 (e) - (f) would be shown separately in the notes.